

## Narayani Ispat Private Limited

### Ratings

Facilities	Amount (Rs. in Million)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	<b>977.25</b> (Reduced from Rs. 1,101.34 Mn)	<b>CARE-NP BB</b> [Double B]	<b>Revised from</b> <b>CARE-NP BB-</b>
Short Term Bank Facilities	<b>2,970.00</b> (Increased from 2,806.00 Mn)	<b>CARE-NP A4</b> [A Four]	<b>Reaffirmed</b>
<b>Total Facilities</b>	<b>3,947.25</b> (Three Thousand Nine Hundred Forty Seven Million and Twenty Five Thousand Only)		

*Details of instruments/facilities in Annexure 1*

CARE Ratings Nepal Limited has revised the rating to 'CARE-NP BB' for the long term bank facilities and reaffirmed the rating to 'CARE-NP A4' assigned to the short term bank facilities of Narayani Ispat Private Limited (NIPL).

### Detailed Rationale & Key Rating Drivers

The revision in long term rating assigned to the bank facilities of NIPL factors in the overall improvement in financial risk profile of the company in FY21 (Audited, refers to 12 month's period ended mid-July 2021) and commencement of operations of continuous casting machine (CCM) plant. The ratings, also derive strength from experienced promoters and management in the related field, locational advantage of the manufacturing facilities, established marketing setup and demand of steel products in the country.

The ratings, however, continue to be constrained by leveraged capital structure, working capital intensive nature of operations and presence in highly competitive nature of steel industry in Nepal. The ratings also factor in raw material price volatility and foreign exchange fluctuation risk and exposure to volatile interest rates.

*Going forward, the ability of the company to profitability scales up its operations and rationalization of its debt level by managing the working capital requirements supporting the growth in operations will be the key rating sensitivities.*

### Detailed Description of the Key Rating Drivers

#### Key Rating Weaknesses

#### ***Leveraged capital structure though improved during FY21***

The company had leveraged capital structure due to high dependence on working capital borrowings and term loan taken by the company to setup the manufacturing facilities and capex undertaken in recent past. As on Mid-July 2021, the overall gearing ratio of the company stood high at 6.64x (PY:11.52x; including acceptances of letter of credit). The overall gearing has shown improvement on account of increase in net-worth due to infusion of equity capital and plough back of profit into business. Though the overall gearing improved on the balance sheet date of FY21 over previous year, it continued to remain high.

#### ***Improvement in operating cycle, however high reliance on bank finance for funding the requirement***

Total operating cycle of the company improved from 165 days for FY20 to 93 days for FY21 primarily on account of reduction in average collection period from 102 days in FY20 to 44 days in FY21. The reduction in collection period was on account of management focus towards cash sales. Inventory holding period of the company continued to remain high at 2-2.5 months as being a manufacturer, NIPL is required to maintain adequate inventory of material on account of lead time for purchases and to ensure regular supply of sponge iron/billets for uninterrupted manufacturing operations. The company imports its raw material mainly from India backed by letter of credit (majority sight) leading to high dependence on bank borrowings to meet its working capital requirements leading to the low payable period. Entailing to all this, the

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratingsnepal.com](http://www.careratingsnepal.com) and in other CRNL publications

company has high reliance on the bank finance for working capital requirements. The average monthly outstanding of fund-based working capital limit against drawing power was around 96% during last 18 months period ended mid-January 2022.

***Exposure to raw material price volatility risk and foreign exchange fluctuation risk***

The major raw materials are imported from India and the price of the raw materials are market linked and determined on a periodic basis, thus exposing the company to the volatility in the prices of raw materials which has a bearing on its profitability margins. The raw material cost contributes around 90% of the total operating cost of the company, thus, any volatility in prices of the same impacts the profitability of the company. Furthermore, the majority of its raw material requirements is imported, prices of which is linked to USD, for which it is exposed to the foreign exchange fluctuation risk. Any sudden spurt in these raw material prices might not be passed on to the end customers, instantly, on account of highly fragmented and competitive nature of the industry, which could lead to decline in profitability margins.

***Presence in highly competitive nature of steel industry in Nepal***

The iron and steel industry is intensely competitive marked by the presence of both larger players and numerous smaller players in the unorganized segment. The demand of steel products is considered cyclical as it depends upon the capital expenditure plan of major players in the end-user industry. Furthermore, the value addition in the steel products like TMT bars & related products is low, resulting into low product differentiation in the market. The producers of steel construction materials are essentially price-takers in the market, which directly expose their cash flows and profitability to volatility in the steel prices.

***Exposure to volatile interest rate***

Nepalese banking sectors are fixing floating interest rate on lending by adding certain percentage of premium on quarterly base rate and interest rate will be changed accordingly on quarterly basis. Base rate of the Bank and Financial Institutions will be changed by change in liquidity position which lead to change in interest rate. Interest rate has been changing frequently in Nepal market since last 1-2 year. Therefore, funding from Bank and Financial Institutions are exposed to volatile interest rate.

**Key Rating Strengths**

**Strong presence of the promoter group in steel sector supported by experienced management team**

Although NIPL commenced its operations only in July 2018, the promoters of the company have wide experience in manufacturing steel and other construction materials for more than three decades. NIPL is part of the Keyal group of companies of Nepal which is a diversified business group with strong presence in a broad range of business, manufacturing and industrial interests with main focus on manufacturing construction materials. The group presence is reflected from hardware outlets spreading across the country which contributes to the group's steel business. The company is managed under the overall guidance of its nine members Board of Directors (BoD) which includes experienced businessmen/industrialist from the Keyal group with wide experience in the manufacturing sector. Mr. Bikash Kumar Keyal, Chairman of NIPL, has been involved in the groups business for the past 15 years and looks after the whole group's accounting and finance. Mr. Satya Narayan Keyal, Director of NIPL and also Chairman of the Keyal group of companies has more than 30 years of experience in trading and manufacturing industry.

***Locational advantage and established brand and marketing network***

The plant is located in Parasi, Nepal and is in the western belt of Nepal. The plant site is located in Chhatapipra, Simara, around 15 Kms from Indo-Nepal borders in Birgunj dry-port. Since majority of raw materials used by NIPL are imported from India, the factory's proximity to the border which argues well for importer and provides a competitive advantage in terms of savings in freight cost. The company sells TMT bars under the brand name of "Narayani Steels" which is already an established brand in the Nepal market on account of its long-standing presence in the construction materials

manufacturing and trading industry. This provides leverage to the company in front of new players entering the industry. The group has 15 in-house hardware trading outlets in and around the Kathmandu Valley. Also, the group already has a well-established dealer/distributor network in 129 locations across the country.

***Backward integration of the plant and favourable government policies***

To reduce production cost, the company has backward integrated its plant for manufacturing of M.S. Billet which is the key raw material in manufacturing TMT bars. Billet manufacturing capacity of the company currently stands at 1,00,000 MTPA. The key raw material required in manufacturing of MS Billets is sponge iron and scrap, where sponge iron is being imported from India and scrap is being locally procured from the vendors directly. Processing of sponge iron and scrap materials is economically viable, because of high value of raw materials and the relatively low cost of processing leading to savings in cost of power and fuel. Furthermore, the company's operational profile has also been supported by the recent regulatory changes making sponge iron (raw material for billet) having nil custom duty (reduction from 5%) with levy of additional excise on billet of NPR 2.5 per kg. The company has integrated manufacturing facilities and this amendment in policy/custom tariff by Government of Nepal argues well for the company.

***Stabilization of operations and improved financial risk profile during FY21***

For the period of FY19-FY21, total Operating Income (TOI) of the company is in increasing trend with Rs. 4,229 Mn in FY19 to Rs. 5,601 Mn in FY21 (Audited, refers to 12 months period ended mid-July 2021). NIPL's TOI improved by 56% from Rs. 3,587 Mn in FY20 majorly due to increase in quantity sold by 48.63% to 78,324 MT as well as improvement in average price realization. During H1FY22 ended mid –January 2022, NIPL has booked total revenue of Rs. 3,815 Mn.

PBILD in FY21 stood at Rs. 251 Mn, however with decline in PBILD margin to 4.47% in FY21 from 6.29% in FY20. With a view to garner increased market share, the company did not increase its prices in tandem with the increase in cost of production (mainly raw material cost) due to price rise and settled for little margin of profit. With the improvement in PBILD and decline in interest expense due to lower utilisation of working capital borrowings, net profit of the company improved to Rs 98 Mn from net loss in FY20. GCA of the company also increased and stood at Rs. 98 Mn in FY21 as against cash losses.

***Established brand and marketing network of the group with country wide presence***

The company sells TMT bars under the brand name of "Narayani Steels" which is already an established brand in the Nepal market on account of its long-standing presence in the construction materials manufacturing and trading industry. This provides leverage to the company in front of new players entering the industry. The group also has 15 in-house hardware trading outlets in and around the Kathmandu Valley which makes it easier to penetrate into the market and cater to large section of customers. Also, the group already has a well-established dealer/distributor network in around 129 areas across the country which provides a ready market for its products.

***About the Company***

Narayani Ispat Private Limited (NIPL) is a private limited company incorporated on September 17, 2009 for manufacturing of TMT bars and other allied steel products at factory located in Simara, Nepal. NIPL is part of the Keyal group of companies of Nepal and all the shares of the company are held by individual promoter from Keyal group. The company commissioned operations in July 2018 with capacity of 216,000 MTPA for manufacturing rolled products such as TMT bars, M.S Round etc.

## Financial Performance

For the Period	(Rs. Million)			
	FY19 (A)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Income from Operations	4,229	3,587	5,605	3,815
PBILDT Margin (%)	4.33	6.29	4.47	5.64
Overall Gearing (times)	7.64	11.52	6.64	3.82
Interest coverage (times)	0.89	0.77	1.91	4.21
Current Ratio (times)	0.87	0.77	0.74	0.54
Total Debt/Gross Cash Accruals (times)	(93.37)	(41.94)	28.68	11.28

A: Audited; UA: Unaudited

## Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Long Term Bank Facilities	Term Loan	977.25	CARE-NP BB [Double B]
Short Term Bank Facilities	Fund Based Limits	1,070.00	CARE-NP A4 [A Four]
Short Term Bank Facilities	Non-Fund Based Limits	1,900.00	CARE-NP A4 [A Four]
<b>Total</b>		<b>3,947.25</b>	

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